

**TRANSMITTAL AND NOTICE OF APPROVAL OF
STATE PLAN MATERIAL**
FOR: HEALTH CARE FINANCING ADMINISTRATION

1. TRANSMITTAL NUMBER:

0 2 - 0 0 8

2. STATE:

Arkansas

3. PROGRAM IDENTIFICATION: TITLE XIX OF THE SOCIAL SECURITY ACT (MEDICAID)

TO: REGIONAL ADMINISTRATOR
HEALTH CARE FINANCING ADMINISTRATION
DEPARTMENT OF HEALTH AND HUMAN SERVICES

4. PROPOSED EFFECTIVE DATE

March 1, 2002

5. TYPE OF PLAN MATERIAL (Check One):

NEW STATE PLAN

AMENDMENT TO BE CONSIDERED AS NEW PLAN

AMENDMENT

COMPLETE BLOCKS 6 THRU 10 IF THIS IS AN AMENDMENT (Separate Transmittal for each amendment)

6. FEDERAL STATUTE/REGULATION CITATION:

42 CFR Part 447, Subpart F

7. FEDERAL BUDGET IMPACT:

a. FFY 2002 \$ 880,336.00

b. FFY 2003 \$ 1,543,224.00

8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT:

Attachment 4.19-B, Page 4
Attachment 4.19-B, Page 4aa

9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION OR ATTACHMENT (If Applicable):

Same, Pending Approval, TN 02-07
Same, Approved 01-25-02, TN 01-38

10. SUBJECT OF AMENDMENT:

The Arkansas Title XIX State Plan has been revised to amend the reimbursement of the acquisition cost on generics to AWP-20%.

11. GOVERNOR'S REVIEW (Check One):

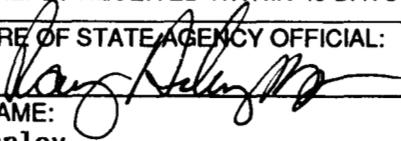
GOVERNOR'S OFFICE REPORTED NO COMMENT

OTHER, AS SPECIFIED:

COMMENTS OF GOVERNOR'S OFFICE ENCLOSED

NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL

12. SIGNATURE OF STATE AGENCY OFFICIAL:



13. TYPED NAME:

Ray Hanley

14. TITLE:

Director, Division of Medical Services

15. DATE SUBMITTED:

March 1, 2002

16. RETURN TO:

Division of Medical Services
P. O. Box 1437
Little Rock, AR 72203-1437

Attention: Binnie Alberius
Slot S295

FOR REGIONAL OFFICE USE ONLY

17. DATE RECEIVED:

MARCH 8, 2002

18. DATE APPROVED:

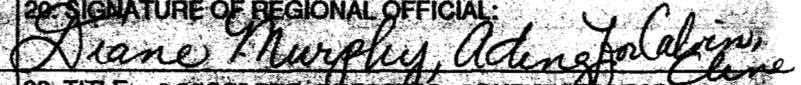
04 JUNE 2002

PLAN APPROVED - ONE COPY ATTACHED

19. EFFECTIVE DATE OF APPROVED MATERIAL:

01 MARCH 2002

20. SIGNATURE OF REGIONAL OFFICIAL:



21. TYPED NAME:

CALVIN G. CLINE

22. TITLE: ASSOCIATE REGIONAL ADMINISTRATOR

DIV OF MEDICAID AND STATE OPERATIONS

23. REMARKS:

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES -
OTHER TYPES OF CARE

Revised: March 1, 2002

12. Prescribed drugs, dentures, and prosthetic devices; and eyeglasses prescribed by a physician skilled in diseases of the eye or by an optometrist
- a. Prescribed Drugs

The reimbursement rate has two components:

DISPENSING FEE: The Dispensing Fee is set at \$5.51, which represents the survey findings of a statistically valid actual cost of dispensing. An additional differential dispensing fee shall be given to pharmacy providers when a generic that does not have a State or federal upper limit is dispensed. The additional differential dispensing fee is set at \$2.00.

INGREDIENT COST: To assure quality of care and access, to assure efficiency and economy and safeguard against unnecessary utilization payment for ingredient cost for brand name drugs and all other drugs for which a specific limit has not been established is limited to the lesser of the provider's usual and customary charge or 86% of AWP (AWP-14%) for brand name drugs and 80% of AWP (AWP-20%) for multi-source (generic) drugs.

PAYMENT LIMITATIONS-INGREDIENTS: Arkansas Medicaid identifies certain brand and generically available drugs and places an upper limit on these drugs. Acquisition costs on these drugs are obtained from multiple sources. Depending on the variance, either the highest acquisition cost or an average of the acquisition costs is obtained and a percentage applied to determine a state upper limit.

Those drugs identified administratively, judicially or by a federal agency as having an Average Wholesale Price far exceeding the actual acquisition cost, and whose average sales price is presented to the state, will be subject to a state upper limit set by reference to the average acquisition cost.

The Federal upper limit standard that has been adopted for certain multiple source drugs identified in the State Medicaid Manual, Part 6, is based on an aggregate payment equal to an amount that includes the ingredient cost of the drug calculated according to the formula described below.

The Federal upper limit is an amount that is equal to 150% of the published price for the least costly therapeutic equivalent (using all available national compendia). The aggregate, rather than each individual drug identified by HCFA will be less than or equal to the HCFA defined multiple source cost listed in 42 CFR 447.332.

SUPERSEDES: TN. AR-02-07

STATE	<u>Arkansas</u>	A
DATE REC'D	<u>03-08-02</u>	
DATE APP'VD	<u>06-04-02</u>	
DATE EFF	<u>03-01-02</u>	
HCFA 179	<u>AR-02-08</u>	

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES -
OTHER TYPES OF CARE

Revised: March 1, 2002

12. Prescribed drugs, dentures, and prosthetic devices; and eyeglasses prescribed by a physician skilled in diseases of the eye or by an optometrist

a. Prescribed Drugs (continued)

3. Eight of the pharmacies in the sample were institutional providers that dispensed prescriptions to patients in long-term care or other institutional settings. Acquisition costs at these pharmacies for brand name drug products averaged 79.5% of the AWP, as compared to 82.2% for pharmacies that dispensed prescriptions in traditional retail settings. This difference was found to be statistically significant by the application of a t-test at the 5% level of significance.
4. Of the 1,752 brand name drug products, acquisition costs for brand name drugs ranged from 33.5% to 99.3% of the AWP with an average acquisition cost of 81.0% of the AWP (based on observations from external invoices only).
5. The acquisition costs for multi-source drugs exhibited much greater variation, but averaged 54.0% of the AWP for drugs without FUL prices. For multi-source drugs with FUL prices, the average acquisition cost was 17.8% of the AWP and 45.9% of the FUL.

The survey concluded that the present ingredient reimbursement rate provides payments in excess of costs incurred by Arkansas pharmacies. The agency expends a high proportion of its drug budget on prescription for brand name drugs. The survey also suggested that the present reimbursement rate may provide an incentive to dispense higher cost drug products. DMS is setting a rate that is consistent with the survey that will safeguard against unnecessary utilization, assure payments are consistent with efficiency, economy and quality of care, and sufficient to enlist enough providers so that care and services are available at least to the extent such care and services are available to the general population.

The survey predicts to a 95% level of confidence, that the mean estimated acquisition cost for brand name drugs ranges from 82.0% to 82.3% of AWP. The average estimated acquisition cost is 82.7% of AWP (AWP-17.3%). For multi-source drugs with no federal upper limits (FUL) the average estimated acquisition cost ranges from 10% to 85% of AWP. The average estimated acquisition costs is 67.5% of AWP (AWP-32.5%). Under the rule payment for brand name drugs and all other drugs for which a specific limit has not been established is limited to the lesser of the provider's usual and customary charge or 86% of AWP (AWP-14%) for brand name drugs and 80% of AWP (AWP-20%) for generic or multi-source drugs.

SUPERSEDES: TN- AR-01-38

STATE <u>Arkansas</u>	A
DATE REC'D <u>03-08-02</u>	
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